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C O N F I D E N T I A L SECTION 01 OF 02 SINGAPORE 000131

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SUBJECT: SINGAPORE REACTS TO LEADERSHIP CHANGES AT TEMASEK

Classified By: Charge d'Affaires Daniel L. Shields for reasons 1.4 (b) and (d)

11. (C) Summary: Despite denials from Temasek leadership, the announcement of the upcoming departure of CEO Ho Ching from Singapore's sovereign wealth fund Temasek Holdings is suspected to be at least partly a result of the fund's recent poor performance. Ho oversaw a broad expansion and diversification of Temasek's assets during her tenure, but many investments proved controversial and Temasek now sits on multi-billion dollar paper losses from untimely investments in the financial sector. Ho's marriage to PM Lee was also seen as a drawback as Temasek tries to allay international fears that the fund could have political as well as commercial interests. Chip Goodyear, an American who only joined Temasek's board in February, has been named her successor. Temasek-watchers speculate that the fund may have named a non-Singaporean CEO to ease the way in pursuing further overseas investments and to convert Temasek into a truly international conglomerate. End Summary.

12. (SBU) Temasek Holdings announced February 6 that Ms. Ho Ching, its CEO since 2004, would step down from the sovereign wealth fund as of October 1. Ho is also the spouse of current PM Lee Hsien Loong. In a press conference, Temasek chairman S Dhanabalan gave no reason for Ho Ching's departure, but said that the board had begun succession planning in 2005 and had already tentatively identified her successor in 2007. Ho said she had no future plans post-October, but some press has speculated that she will run for political office.

A Gentle Shove?

13. (SBU) Dhanabalan insisted at the press conference that Ho's departure was not connected to her relationship with PM Lee and concerns over nepotism, nor to the poor performance of many of Temasek's investments under Ho's leadership. Ho had been credited earlier with tripling the size of the fund from 2004 to March 2008, the date of Temasek's most recent annual report. However, four days after the announcement Senior Minister of State for Finance Lim Hwee Hua revealed to parliament that Temasek's net portfolio value had fallen 31 percent from March to November 2008, from S\$185 billion (US\$123 billion) to S\$127 billion (US\$84 billion). Since November, many of Temasek's equity investments have continued to decline and press sources estimate the current losses since March to be closer to 40 percent. Dhanabalan said Temasek takes a long-term view and contended it was too early to judge the performance of the investments.

14. (SBU) Under Ho, Temasek changed its focus from primarily domestic assets and undertook bold overseas investments. Temasek's investments are now split roughly evenly between

Singapore, the rest of Asia, and developed countries. However, a number of recent investments have since gone awry, particularly financial sector holdings which had reached 40 percent of the fund's portfolio. Journalist Assif Shameen of The Edge business newspaper calculated that Temasek's US\$5.9 billion stake in Merrill Lynch (now held in Bank of America shares) has dropped in value to approximately US\$1.2 billion.

The company is also sitting on multi-billion dollar paper losses in its investments in Standard Chartered and Barclays.

The US\$1.9 billion purchase of Thailand's Shin Corporation in 2006 touched off protests in Thailand that paved the way for the ouster of then-Prime Minister Thaksin Shinawatra, partly due to the convoluted ownership structure Temasek used to bypass foreign ownership restrictions. That investment has also lost approximately two-thirds of its value.

15. (C) Local press reported the sharp fall in Temasek's value, but also gave broad play to the GOS's spin, stressing the long-term nature of its investments and favorably comparing the performance of the fund to broader indexes which fell even further in 2008. Nevertheless, Temasek co-Executive Director Simon Israel told the Charge February 10 that although the Singapore press has not been critical, the more freewheeling Internet blogs have savaged Ho Ching for her performance. On the recent S\$58 billion in Temasek losses, one blogger wrote, "Only in uniquely Singapore can someone lose \$240 million of public money a day for eight months and there is no public demonstration."

Bad Times Call for Goodyear

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16. (C) Charles "Chip" Goodyear, a 51-year-old American, will replace Ho as CEO on October 1 and will be the first non-Singaporean to captain Temasek. Goodyear was formerly CEO of BHP Billiton, the world's largest mining company, and was named to the board of Temasek only on February 1, 2009. A senior Temasek manager speculated that the company named a non-Singaporean as head to allay fears overseas that the sovereign wealth fund was an instrument of the government and could be serving Singapore's political rather than commercial interests. Nancy Wei, Head of Research for United Overseas Bank, told Econ FSN that the move also likely reflected Temasek's transition from a mainly domestic player to an international conglomerate and the consequent need for stronger international experience on the board. As a former mining executive, Goodyear may also bring a new direction for Temasek toward investments in natural resources.

17. (C) Comment: Despite the Temasek chairman's denials, the announcement of Ho Ching's resignation seems connected to Temasek's untimely investments in the financial sector and the private criticism of Ho's performance. Although Singapore can be quick to crack down on public criticism of its leadership, the government is sensitive to low level grumbling and often moves swiftly to head off complaints before they become serious issues. It fits the Singapore style for Ho's resignation to have been made public on February 6, while confirmation of Temasek's major losses only came on February 10. The nine-month delay in Ho's departure may be a face-saving measure, designed to reduce any impression that she is being punished for Temasek's performance while still blunting public anger and criticism over the losses to Singapore's reserves under her watch.

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